Dated: September 7, 2004

In the Matter of:	) Docket 03-IEP-01, 02-REN-1038,) 03-RPS-1078, and 04-DIST-GEN-1
Informational Proceeding and Preparation of the 2004 Integrated Energy Policy Report (IEPR) Update	)) Comments for the Committee on) the Accelerated Renewable) Energy Development Draft Staff) White Paper and August 27, 2004) Workshop

Comments of the City of Palo Alto
On Draft Staff White Paper On Accelerated Renewable Energy Development

The City of Palo Alto commends the California Energy Commission (CEC) for seeking input from stakeholders and the public on its draft staff White Paper entitled, *Accelerated Renewable Energy Development* (White Paper). Palo Alto appreciates this opportunity to provide comments to the CEC Committee on the draft staff White Paper.

The Cities endorse the remarks and comments made on behalf of local publicly-owned utilities submitted by CMUA, NCPA, and SMUD. Palo Alto feels strongly that local control is essential to operating local publicly-owned utilities, and that the implementation of public power energy plans will meet the intent and objectives of the Renewable Portfolio Standard (RPS). These written comments are meant to provide CEC Staff with additional information and suggestions that Palo Alto feels will improve the quality and effectiveness of the White Paper.

1. Publicly owned electric utilities Renewables Portfolio Standard (RPS) plans.

The description of Palo Alto's RPS is not reflected accurately in Table 3 on page 28. Palo Alto does not include large hydro resources in the definition of renewable energy for the purposes of meeting its renewable energy targets. This category is listed as "Unknown". In 2003, Palo Alto's power mix was 6% eligible renewables, as reported in the power content label and power source disclosure reports, which is listed in the table as 3%. Furthermore, Palo Alto's goal is to achieve 10% by 2008 and 20% by 2015 of <u>new</u> renewable resources, and has allowed additional spending to achieve this goal that does not siphon funds away from the public goods charge. Palo Alto will meet its renewable energy goals while maintaining the public benefits programs that provide incentives to local residents and businesses to reduce

consumption and install customer-sited photovoltaic systems, primarily photovoltaics.

Palo Alto is currently working in cooperation with other municipal utilities and NCPA to achieve these goals. Implementing this plan will add 2% reneables per year to Palo Alto's power mix.

2. **Individual utility targets: What is an acceptable level and methodology to equitably determine new individual targets?**

Palo Alto supports the suggestion to exempt certain small retail providers from RPS requirements, allowing local oversight bodies to determine goals in the context of reliability and impact on rates.

3. **Possible use of unbundled renewable energy certificates (RECs) in future RPS solicitations**

Palo Alto is in favor of using unbundled RECs to meet the RPS as long as the WREGIS system is adequate, and as long as utilities and generators are not required to unbundle the attributes from the energy. Palo Alto is pursuing energy bundled with environmental attributes in its renewable procurements, but RECs do provide some flexibility for both service providers and generators going forward.

Tradable RECs enable smaller retail providers and smaller generators to participate more efficiently in the energy market, and enhances the state's ability to cost-effectively meet the objectives and intent of the RPS reflected in SB 1078 and SB 1478. RECs enable renewable generators to sell energy into the market without requiring a bilateral contract with an individual utility, yet at the same time enabling a mechanism for that generator to collect the value of the "greenness" of the generation.

RECs enable renewable energy to be developed where there is adequate renewable resources and transmission, regardless of whether they are in Southern Californian or Northern California. If the objective is to achieve 20% renewables for the state, it does not matter that it is uniformly distributed among the various utility service regions.

Appropriately implemented, unbundled RECs could serve to facilitate the deployment of renewable energy without unduly burdening utilities with service areas that are susceptible to high congestion costs in some of the proposed market design alternatives. RECs could serve even in a transitional mode as a complement to building needed transmission infrastructure, which is by its nature a long lead-time activity. This role may enhance the ability of the CEC, CPUC and ISO to integrate the planning and

development activities needed to implement the RPS to work effectively with stakeholders and neighboring states.

4. Barriers to reaching 20 percent by 2010

Three themes that were discussed at the August 27 workshop regarding barriers to implementation warrant further comment: Contract Terms, Cost, and Time Frame.

Contract Terms: Many of the renewable energy developers do not meet minimum credit requirements, and it is extremely costly to negotiate and manage numerous small supply contracts. Standardizing contract terms, which the Commission and others have been working toward, is a helpful direction. Contract terms appropriate for investor-owned utilities, though, do not address some of the important concerns for public entities. There are many unique operational considerations and constraints important to public power entities, especially for smaller entities or for consortiums that "pool" their resources, that are not addressed in the current forms of contract.

Cost: Palo Alto was anxious to read the white paper, anticipating that CEC staff would apply the very excellent analysis from the November 2003 *Renewable Resources Development Report* to the Accelerated RPS to estimate the costs associated with the shorter time frame. There is unfortunately no such analysis, as several speakers highlighted on August 27. Palo Alto feels that it is important when considering such an important policy decision that the costs of implementing that decision is a critical piece of information when making the choice. This position is not one of assuming that it is necessarily too costly, but simply one of wanting to know what staff estimates the cost to be, perhaps even under more than one approach (e.g. uniform development in each utility territory versus lowest cost). Staff should utilize the information at their disposal to refine the analysis to reduce the estimates of Technical Potential to both Economic Potential and Achievable Potential, and roll these results into an estimated cost of implementing the now-passed accelerated RPS. This analysis will assist utilities, public power, CEC and CPUC staff, the CAISO, and the legislature to determine which alternate paths for implementation best fit he state's overall objectives.

Time Frame: Palo Alto has in place a two-tiered approach to meeting its own RPS. Tier 1 involves contracting with existing or soon-to-be-built facilities to gain experience with their operation, and Tier 2 contemplates constructing facilities of its own, possibly through joint action, based on what is leaned during Tier 1. Palo Alto selected the 10% by 2008 and 20% 2015 time frame based on its estimate of the time needed to learn sufficiently in Tier 1 and the time needed to develop and construct a sizable facility in Tier 2. An accelerated goal is achievable, but may preclude the ability to achieve the

contribution to the state's power mix in the manner intended in Palo Alto's long-term electric plan. Palo Alto suggests that the CEC recognize the intent of individual utilities' long-term development plans in judging compliance with the legislation's intent and objectives.

Conclusion

Palo Alto continues to strive to implement programs that improve the environment in balance, enhance local reliability while keeping retail rates low and stable. Palo Alto appreciates the opportunity to comment on the staff's White Paper and will continue to share its opinions as the 2004 IEPR update is developed.

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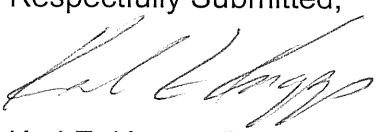
Respectfully Submitted,



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